

RECEIVED
FEB 18 2000
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

MONITORING REPORT

CC DOCKET No. 98-202

DECEMBER 1999

Prepared by Federal and State Staff for the

Federal-State Joint Board in

CC Docket No. 96-45

Alexander Butcher

This report is available for reference in the FCC's Reference Information Center, Courtyard Level, 445 12th Street SW, Washington, DC 20554. Call International Transcription Services, Inc. at (202) 857-3800 to purchase a copy. The report can also be downloaded from the FCC-State Link internet site at <http://www.fcc.gov/ccb/stats> on the World Wide Web. Names for print image files: mrd99-0.pdf, mrd99-1.pdf, ... , mrd99-11.pdf for the introduction and each section separately. Names for compressed files in word processor (Word 97) and spreadsheet (Excel 97 or Lotus 123 .wk4) formats: mrd99-0.zip, mrd99-1.zip, ... , mrd99-11.zip.

No. of Copies rec'd
List ABCDE

DF 1

Table of Contents

Index of Tables and Charts	2 to 4
Introduction and Summary	5 to 7
Service List	8 to 13
1. Industry Revenues and Contributions	1-1 to 1-11
2. Low-Income Support	2-1 to 2-59
3. High-Cost Support	3-1 to 3-266
4. Schools and Libraries Support	4-1 to 4-11
5. Rural Health Care Support	5-1 to 5-18
6. Subscribership and Penetration	6-1 to 6-51
7. Rates and Price Indexes	7-1 to 7-27
8. Network Usage and Growth	8-1 to 8-5
9. Quality of Service	9-1 to 9-26
10. Infrastructure	10-1 to 10-24
11. Revenues, Expenses and Investment	11-1 to 11-31

Index of Tables and Charts

Access Charges - Per Line	Table 7.10
Access Charges - Per Line - By Carrier	Table 7.12
Access Charges - Per Minute	Table 7.11
Access Charges - Per Minute - By Carrier	Table 7.13
Consumer Price Indexes - Annual Levels	Chart 7.1
Consumer Price Indexes - Annual Rates of Change	Chart 7.2
Consumer Price Indexes - Annual Rates of Change - Components	Chart 7.3
Consumer Price Indexes - Average Annual Changes	Table 7.1
Consumer Price Indexes - Monthly	Table 7.4
Consumer Price Indexes - Monthly - New	Table 7.5
Customer Perception Surveys - Percentage of Customers Dissatisfied	Table 9.4
Customer Perception Surveys - Sample Sizes	Table 9.5
Expenses and Taxes	Table 11.2
Expenses - Total Operating	Table 11.9
Income - Net	Table 11.5
Installation, Maintenance, and Customer Complaints	Table 9.1
Investment - Average Net	Table 11.6
Investment - Gross	Table 11.3
Investment - Other	Table 11.14
Investment - Plant	Table 11.13
Investment - Reserves	Table 11.4
Lifeline and Link-Up Assistance by State - Monthly, 1998	Table 2.2
Lifeline and Link-Up Assistance by Study Area - Monthly, 1998	Table 2.3
Lifeline Assistance - Subscribers - History by State	Table 2.5
Lifeline Monthly Support by State	Table 2.1
Local Exchange Carrier Study Areas - Changes	Table 3.25
Local Switching Support - Payment History	Table 3.6
Local Switching Support - Payment Projections - by Study Area	Table 3.17
Long Term Support - Payment History	Table 3.5
Long Term Support - Payment Projections - by Study Area	Table 3.16
Loops by State	Table 3.12
Loops by Study Area	Table 3.22
Minutes of Use - Interstate Access - Tier 1	Table 8.1
Non-operating Items - Total	Table 11.10
Non-Traffic Sensitive Revenue Requirement - Unseparated - by State	Table 3.11
Non-Traffic Sensitive Revenue Requirement - Unseparated - by Study Area	Table 3.21
NTS Revenue Requirement per Loop - by State	Table 3.13
NTS Revenue Requirement per Loop - by Study Area	Table 3.23
Other Operating Income or Loss	Table 11.8
Penetration - Households	Chart 6.1
Penetration - Individual Adults	Chart 6.8
Penetration by Household Size	Table 6.5

Index of Tables and Charts

Penetration by Household Size - Critical Values	Table 6.10
Penetration by Household Size - Average 1999	Chart 6.5
Penetration by Householder's Age	Table 6.6
Penetration by Householder's Age - Critical Values	Table 6.11
Penetration by Householder's Age - Average 1999	Chart 6.6
Penetration by Income	Table 6.4
Penetration by Income - Critical Values	Table 6.9
Penetration by Income - Average 1999	Chart 6.4
Penetration by Labor Force Status	Table 6.7
Penetration by Labor Force Status - Critical Values	Table 6.12
Penetration by Labor Force Status - Average 1999	Chart 6.7
Penetration by State	Table 6.3
Penetration by State - Changes	Table 6.2
Penetration by State - Changes - Map	Chart 6.3
Penetration by State - Critical Values	Table 6.8
Penetration by State - March 1998 - Map	Chart 6.2
Penetration - Effect of Do Not Disconnect Policies - Price Variables Excluded	Table 6.14
Penetration - Effect of Do Not Disconnect Policies - Price Variables Included	Table 6.13
Pool - NECA - Common Line	Table 3.3
Pool - NECA - Traffic Sensitive	Table 3.4
Price Indexes - Annual Changes	Table 7.2
Price Indexes - Local and Toll Service - Annual Changes	Table 7.3
Rates - Interstate Long Distance - AT&T	Table 7.7
Revenue per Minute - Average	Table 7.8
Revenue per Minute - Average - Adjusted for Inflation	Table 7.9
Revenues and Other Operating Items	Table 11.1
Revenues - Net	Table 11.7
Rural Health Care Funding Commitments	Table 5.2
Rural Health Care Funding Commitments by State	Table 5.1
Rural Health Care Funding Commitments by Type of Provider	Table 5.3
Rural Health Care Funding Commitments by Type of Service Provider	Table 5.4
Schools and Libraries Fund Disbursements by Service Provider Type	Table 4.3
Schools and Libraries Funding Commitments by State and Type of Applicant	Table 4.1
Schools and Libraries Funding Commitments by State and Type of Service	Table 4.2
Schools and Libraries Mechanism - Net Revenue by State	Table 4.4
State Code Reference	Table 8.2
Study Area Waiver Limitations - USF - Applied in 2000	Table 3.4
Study Area Waiver Limitations - USF - Ended in 2000	Table 3.3
Subscribership - Effect of Do Not Disconnect Policies in Place for 60 Months	Table 6.15
Subscribership - Effect of Do Not Disconnect Policies in Place for 120 Months ...	Table 6.16
Subscribership - United States	Table 6.1
Switch Downtime and Trunk Blocking	Table 9.2

Index of Tables and Charts

Switch Downtime Causes	Table 9.3
Switching Systems	Table 10.1
Taxes - Federal Income	Table 11.11
Taxes - Total Other	Table 11.12
Telecommunications Revenue - by Type of Carrier	Table 1.1
Transmission Systems	Table 10.2
Universal Service Fund by State	Table 3.9
Universal Service Fund by Study Area	Table 3.19
Universal Service Fund High Cost Formulas	Table 3.1
Universal Service Fund History	Table 3.2
Universal Service Fund Payment Projections - by Study Area	Table 3.15
Universal Service Fund Payments - by State	Table 3.14
Universal Service Fund Payments - by Study Area	Table 3.24
Universal Service Fund Percentage Changes - by State	Table 3.10
Universal Service Fund Percentage Changes - by Study Area	Table 3.20
Universal Service Program Requirements and Fund Factors	Table 1.2
Universal Service Programs - Fund Size Projections - High Cost	Table 3.7
Universal Service Programs - Fund Size Projections - Low Income	Table 2.4
Universal Service Programs - Support Payment Projections by State	Table 3.8
Universal Service Programs Total Support Payment Projections by Study Area	Table 3.18

Monitoring Report
CC Docket No. 98-202
December 1999

Introduction and Summary

This is the third report in a series of reports prepared by federal and state staff members for the Federal-State Joint Board in CC Docket No. 96-45 (Universal Service Joint Board). These reports contain information to monitor the impact of universal service support mechanisms, and the methods used to finance them. These mechanisms were adopted by the Federal Communications Commission (Commission), based on recommendations from the Universal Service Joint Board. These reports are part of a monitoring program created by the Commission in 1997¹ to replace the similar program in CC Docket No. 87-339 that resulted in a series of nineteen Monitoring Reports. The current program incorporates most of the information that was collected under the previous program, and also new materials from the reports of the administrator of the universal service support mechanisms, the Universal Service Administrative Company (USAC). To enhance our monitoring ability, we have created an open docket², which allows data, materials, comments, and studies to be submitted at any time.

The monitoring program has proven to be valuable, not only as a report on the effects of regulatory changes, but also as a complete census of all incumbent local exchange carriers. Because smaller carriers generally are exempt from most Commission reporting requirements, the Monitoring Report incorporates data from several sources, including the National Exchange Carrier Association (NECA) and USAC. NECA, at the direction of the Commission, collects information in order to administer the access charge pools and to provide information to USAC to help administer the Universal Service Fund. USAC also collects information from all eligible carriers to administer the universal service support mechanisms. The Monitoring Report, therefore, contains the only available comprehensive data on all incumbent local exchange carriers, containing data on such matters as the number of telephone lines, calling volumes, and certain types of costs.

This report presents data for the eleven subject categories selected for monitoring. The first section is about the contributions to the universal service support mechanisms and industry revenues, on which those contributions are now based. The next four sections are about the various support mechanisms: low income support; high cost support; schools and libraries support; and rural health care support. The remaining six sections provide information on matters that might be affected by the support mechanisms: subscribership and penetration; rates and price indices; network usage and growth; quality of service; infrastructure; and revenues, expenses and investment.

1 *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Report and Order*, FCC 97-157, para. 869 (released May 8, 1997).

2 CC Docket No. 98-202.

Because the Monitoring Report is published twice a year and some of the information published is filed only once a year, not all tables are published in every issue. We recommend that users keep the two latest issues to be certain they have all the latest information. In this report we only include tables for which we have new information, except for a few summary tables. The following are highlights of some of the material in this report. Section 1 provides an update on contributions to the universal service support mechanisms, and the industry revenues on which they are based. Section 2 includes 1999 data on the Lifeline and Link-Up America programs. Section 3 includes data from the October 1, 1999, NECA universal service fund filing, a summary of four years of revised historical data, and a table showing study area changes in the last four years. In addition, it includes projected payments through the first quarter of 2000 for all of the high cost support programs, based on the quarterly reports from USAC. Section 4 includes updated data on the schools and libraries support. Section 5 includes updated data on the rural health care support. Section 6 includes Census data on subscribership through November 1999. It also includes the results of some research on the effectiveness of some programs designed to increase subscribership. Section 7 includes updated Consumer Price Index and Producer Price Index data and other updated rate information. Section 8 includes 1999 NECA access minute data. Section 9 includes updated 1998 data on the quality of service from the Commission's Automated Reporting Management Information System (ARMIS) reports. Section 10 includes updated data through 1998 on infrastructure from the ARMIS reports. Section 11 includes information on revenues, expenses and investment for 1998 from the ARMIS reports.

This report is based on information available to us as of December 31, 1999. This entire report is available electronically through the FCC-State Link internet site, which can be reached at <http://www.fcc.gov/ccb/stat> on the World Wide Web. It is available in both page image (.pdf) format and in a compressed (.zip) format, which, when unzipped yields word processing and spreadsheet files. In addition, information received well in advance of the next Monitoring Report will be made available on an interim basis in separate staff reports or in raw data files (such as most NECA filings used in the Monitoring Report) on the internet site. In addition, the ARMIS data are available on the ARMIS internet site, which can be reached at <http://www.fcc.gov/ccb/armis/db/>.

For ease of public reference, we ask that parties submitting materials for this docket provide a duplicate copy to the FCC's Reference Information Center,³ where copies of all materials filed in the docket are available for public reference.

3 Courtyard Level, 445 12th Street SW, Washington, DC 20554.

This report has been prepared by the federal staff listed below and reviewed by the state staff listed below. These staff members can be contacted for further information:

General Information:	Alexander Belinfante (Federal) (202) 418-0944 Peyton Wynns (Federal) (202) 418-0942
Industry Revenues and Contributions:	Jim Lande (Federal) (202) 418-0948 Greg Fogleman (Florida) (850) 413-6574
Low-Income Support:	Laurence Povich (Federal) (202) 418-0953 Suzanne McCrary (Federal) (202) 418-0941 Philip McClelland (Pennsylvania) (717) 783-5048 Charles Bolle (Nevada) (775) 687-6070
High-Cost Support:	Alexander Belinfante (Federal) (202) 418-0944 Rowland Curry (Texas) (512) 936-7246 Tom Wilson (Washington) (360) 664-1293
Schools and Libraries Support:	Craig Stroup (Federal) (202) 418-0989 Susan Stevens Miller (Maryland) 410-767-8036
Rural Health Care Support:	Craig Stroup (Federal) (202) 418-0989 Peter Bluhm (Vermont) (802) 828-2358
Subscribership and Penetration:	Alexander Belinfante (Federal) (202) 418-0944 Craig Stroup (Federal) (202) 418-0989 Doris McCarter (Ohio) (614) 644-7977
Rates and Price Indexes:	Tracy Waldon (Federal) (202) 418-0957 Jim Eisner (Federal) (202) 418-7302 Thor Nelson (Colorado) (303) 894-2125
Network Usage and Growth:	Alan Feldman (Federal) (202) 418-0943 Mary Newmeyer (Alabama) (334) 242-2968
Quality of Service:	Jonathan Kraushaar (Federal) (202) 418-0947 Carl Johnson (New York) (518) 486-2832
Infrastructure:	Jonathan Kraushaar (Federal) (202) 418-0947 Katie Rangos (Federal) (202) 418-0954 Lori Kenyon (Alaska) (907) 263-2123
Revenues, Expenses and Investment:	Katie Rangos (Federal) (202) 418-0954 Barbara Meisenheimer (Missouri) (573) 751-5567

SERVICE LIST

All items filed in CC Docket No. 87-339 must be filed with the Secretary, Federal Communications Commission, 1919 M Street, NW, Room 222, Washington, D.C. 20554, and the following Commissioners and staff members (email addresses of staff members follow their mailing addresses):

DOCKET NO. 96-45 JOINT BOARD MEMBERS

Commissioner Susan Ness
Federal Communications Commission
445 12th Street SW, Room 8-B115
Washington, DC 20554

Commissioner Gloria Tristani
Federal Communications Commission
445 12th Street SW, Room 8-C302
Washington, DC 20554

Commissioner Harold Furchtgott-Roth
Federal Communications Commission
445 12th Street SW, Room 8-A302
Washington, DC 20554

Chairperson Joe Garcia
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Commissioner Laska Schoenfelder
South Dakota Public Utilities Commission
State Capitol
500 East Capitol Street
Pierre, SD 57501-5070

Chairman Patrick H. Wood III
Texas Public Utility Commission
1701 North Congress Ave.
P. O. Box 13326
Austin, TX 78711-3326

Commissioner Bob Rowe
Montana Public Service Commission
1701 Prospect Ave.
P. O. Box 202601
Helena, MT 59620-2601

Public Counsel Martha Hogerty
Missouri Office of Public Counsel
301 West High St., Suite 250
P. O. Box 7800
Jefferson City, MO 65102

DOCKET NO. 96-45 FEDERAL-STATE JOINT BOARD STAFF

Greg Fogleman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850
gfoglema@psc.state.fl.us

Doris McCarter
Ohio Public Utilities Commission
180 East Broad Street, 3rd Floor
Columbus, OH 43215-3793
doris.mccarter@puc.state.oh.us

Charles Bolle
Nevada Public Utilities Commission
1150 East Williams Street
Carson City, NV 89701-3105
cbolle@govmail.state.nv.us

Barbara Meisenheimer
Missouri Office of Public Counsel
301 West High St., Suite 250
Jefferson City, MO 65102
bmeisenh@mail.state.mo.us

Rowland Curry
Texas Public Utility Commission
1701 North Congress Ave.
P. O. Box 13326
Austin, TX 78701
rowland.curry@puc.state.tx.us

Susan Stevens Miller
Maryland Public Service Commission
6 Paul Street, 16th Floor
Baltimore, MD 21202-6806
smiller@psc.state.md.us

Carl Johnson
New York Public Service Commission
3 Empire State Plaza
Albany, NY 12223-1350
caj@dps.state.ny.us

Thor Nelson
Colorado Office of Consumer Counsel
1580 Logan Street, Suite 610
Denver, CO 80203
thor.nelson@dora.state.co.us

Tom Wilson
Washington Utilities and Transportation
Commission
1300 Evergreen Park Drive, SW
P. O. Box 47250
Olympia, WA 98504-7250
tomw@wutc.wa.gov

Peter Bluhm
Vermont Public Service Board
Drawer 20
112 State Street, 4th Floor
Montpelier, VT 05620-2701
pbluhm@psb.state.vt.us

Lori Kenyon
Alaska Public Utilities Commission
1016 West 6th Avenue, Suite 400
Anchorage, AK 99501
lorraine_kenyon@rca.state.ak.us

Mary Newmeyer
Alabama Public Service Commission
100 N. Union Street, Ste. 800
Montgomery, AL 36104
mnewmeyer@psc.state.al.us

Philip McClelland
Pennsylvania Office of Consumer Advocate
555 Walnut Street, 5th Floor
Harrisburg, PA 17101-1923
pmcclelland@paoca.org

Irene Flannery, Chief
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-A426
Washington, DC 20554
iflanner@fcc.gov

Linda Armstrong, Assistant Chief
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-A422
Washington, DC 20554
larmstro@fcc.gov

Bryan Clopton
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-A465
Washington, DC 20554
bclopton@fcc.gov

Steve Burnett
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-B418
Washington, DC 20554
sburnett@fcc.gov

Elizabeth Valinoti
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-C408
Washington, DC 20554
evalinot@fcc.gov

Katherine Schroder, Deputy Chief
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-A423
Washington, DC 20554
kschrode@fcc.gov

Lisa Boehley
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-B544
Washington, DC 20554
lboehley@fcc.gov

Ted Burmeister
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-B541
Washington, DC 20554
tburmeis@fcc.gov

Andrew Firth
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-A505
Washington, DC 20554
afirth@fcc.gov

Genaro Fullano
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-A623
Washington, DC 20554
gfullano@fcc.gov

Katie King
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-B550
Washington, DC 20554
kking@fcc.gov

Robert Loube
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-B524
Washington, DC 20554
rloube@fcc.gov

Mark Nadel
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-B551
Washington, DC 20554
mnadel@fcc.gov

Praveen Goyal
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-B448
Washington, DC 20554
pgoyal@fcc.gov

William Cox
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-B530
Washington, DC 20554
wcox@fcc.gov

Linda Chang
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-B552
Washington, DC 20554
lchang@fcc.gov

Brian Millin
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-A525
Washington, DC 20554
bmillin@fcc.gov

Richard D. Smith
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-B448
Washington, DC 20554
rdsmith@fcc.gov

Sharon Webber, Deputy Chief
Accounting Policy Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 5-A425
Washington, DC 20554
swebber@fcc.gov

Rebecca Beynon
Office of Commissioner Furchtgott-Roth
Federal Communications Commission
445 12th Street SW, Room 8-A302
Washington, DC 20554
rbeynon@fcc.gov

Jordan Goldstein
Office of Commissioner Ness
Federal Communications Commission
445 12th Street SW, Room 8-B115
Washington, DC 20554
jgoldste@fcc.gov

Sarah Whitesell
Office of Commissioner Tristani
Federal Communications Commission
445 12th Street SW, Room 8-C302
Washington, DC 20554
swhitese@fcc.gov

OTHER FEDERAL STAFF

Alexander Belinfante
Industry Analysis Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 6-A132
Washington, DC 20554
abelinfa@fcc.gov

Peyton L. Wynnns, Chief
Industry Analysis Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 6-A224
Washington, DC 20554
pwynnns@fcc.gov

Jonathan Kraushaar
Industry Analysis Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 6-A262
Washington, DC 20554
jkrausha@fcc.gov

Jim Lande
Industry Analysis Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 6-A134
Washington, DC 20554
jlande@fcc.gov

Suzanne McCrary
Industry Analysis Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 6-A220
Washington, DC 20554
smccrary@fcc.gov

Laurence Povich
Industry Analysis Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 6-A130
Washington, DC 20554
lpovich@fcc.gov

Katie Rangos
Industry Analysis Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 6-A162
Washington, DC 20554
krangos@fcc.gov

Alan Feldman, Deputy Chief
Industry Analysis Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 6-A223
Washington, DC 20554
afeldman@fcc.gov

Craig Stroup
Industry Analysis Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 6-A104
Washington, DC 20554
cstroup@fcc.gov

Tracy Waldon
Industry Analysis Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 6-A160
Washington, DC 20554
twaldon@fcc.gov

Jim Eisner
Industry Analysis Division
Common Carrier Bureau
Federal Communications Commission
445 12th Street SW, Room 6-A102
Washington, DC 20554
jeisner@fcc.gov

1. Industry Revenues and Contributions

This section provides a general overview of the revenues of the U.S. telecommunications industry and the contributions to the universal service support mechanisms that are based on these revenues. The information for 1999 comes from worksheets containing first half 1999 revenue data that carriers filed with the administrator of the universal service support mechanism. By October 1999, the universal service database contained first half 1999 data for 2,354 contributing service providers. The data represent all carriers, although revenue data were estimated for some contributors due to late filings or inadequate filings and also for carriers that were not required to file a universal service worksheet. Over 1,000 carriers, however, were exempted from universal service filing requirements because their potential contributions to the universal service support mechanisms were expected to be "de minimis" - that is, their contribution for the year was expected to be less than \$10,000.

Table 1.1 shows carrier's carrier revenue and end-user revenue for 1998 and first half 1999 for six broad classes of carriers.

Universal service requirements include several mechanisms that help ensure that all Americans have access to affordable telecommunications service. In section 254(d) of the Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 *codified* at 47 U.S.C. §§ 151 *et seq.*, Congress mandated that "[e]very telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service." The Commission adopted funding mechanisms in a Report and Order, FCC 97-157, CC Docket No. 96-45, 12 FCC Rcd 8776 (rel. May 8, 1997). The Commission subsequently selected the Universal Service Administrative Company (USAC) as the interim administrator. Carriers first filed Universal Service Worksheets on September 1, 1997, for the first half of 1997. Starting with the September 1999 filing, carriers were instructed to file the FCC Form 499 Telecommunications Reporting Worksheet instead of the FCC Form 457 Universal Service Worksheet. The April version of the Form 499 is similar to the Form 457. The September version, however, contains significantly less revenue information.

Table 1.2 shows how carrier revenue data and program requirements information were combined to determine the contribution factors used to bill carriers during 1998.

Revenue Data

Almost all telecommunications carriers are considered to be interstate service providers. Local telephone companies are classified as interstate service providers because they provide interstate access services. Similarly, competitive access providers, pay telephone operators, and cellular telephone companies derive revenue from providing access to interstate services and accordingly file worksheets. Virtually all pay telephone providers, interexchange carriers (IXCs), operator service providers (OSPs), and toll resellers provide interstate services. Special mobile

radio (SMR) and private paging providers offer dispatch, paging, and some telephone services. At one time, SMRs were not regulated as carriers and did not have to contribute to the provision of TRS. SMRs were first required to file TRS Worksheets in 1996. Private carriers are subject to universal service support mechanism contribution requirements but not to TRS contribution requirements.

Both the universal service and telecommunications reporting worksheets require each legal entity that provides interstate telecommunications service to file a separate worksheet. Several wireless carriers, however, received permission to make consolidated universal service filings in situations where they maintain separate legal entities because their spectrum licenses have different groups of owners, but where a single entity managed the combined operations.

In the universal service and telecommunications reporting worksheets, each filer is required to report total and interstate revenues in two broad categories: service provided to other universal service contributors for resale (carrier's carrier); and, service to de minimis carriers and end users (end user). In the April version of the form, Carriers must provide further breakdowns of local, wireless, and toll services as well as breakdowns for intrastate and interstate (including international) service. The September version of the form only requires the breakdowns for intrastate and interstate service. Universal service contributions to the universal service support mechanisms are based on a carrier's interstate and international end user revenues. One category of end user telecommunications revenue -- toll calls that both originate and terminate outside of the United States, primarily call-back and World Direct type service -- is excluded from universal service contribution bases.

The Universal Service and TRS Worksheets require each filer to categorize itself using one of the following categories:¹

- Competitive Access Provider (CAP) or Competitive Local Exchange Carrier (CLEC)
- Cellular, Personal Communications Service (PCS) and Specialized Mobile Radio (SMR) Wireless Telephony Service Provider
- Incumbent Local Exchange Carrier (ILEC)
- Interexchange Carrier (IXC)
- Local Reseller
- Operator Service Provider (OSP)
- Other Local
- Other Mobile Service Carrier
- Other Toll Service Provider
- Paging and Messaging
- Pay Telephone Provider

¹ For detailed definitions of the categories and worksheet instructions, see *Telecommunications Industry Revenue: 1997* (FCC CCB Industry Analysis Division, released October 8, 1998).

- Private Service Provider
- Pre-paid Calling Card Provider
- Satellite Service Provider
- Shared Tenant Service Provider
- Special Mobile Radio - Dispatch
- Toll Reseller
- Wireless Data Service Provider

Table 1.1 summarizes total industry revenue and shows detail for six broad groups of carriers. Carriers reported \$23.8 billion of carrier's carrier revenue and \$102.7 billion of end user revenue for the first half of 1999. \$39.0 billion of the end user revenue was identified as interstate, which includes domestic interstate calls as well as international calls, but excludes calls that both originate and terminate in foreign points.

Carriers were instructed to report the amounts actually billed to customers. This means that carriers should report revenue net of discounts, but without making any adjustments to reflect uncollectible revenue or international settlement payments. Most filers should be able to report revenue in this manner using information contained in their corporate books of account. Some filers, however, have no business or regulatory requirements to record intrastate revenues separately from interstate revenues or to use the detailed revenue categories contained in the worksheets. Therefore, breakdowns are likely to be less accurate than industry totals.

The universal service and TRS rules prohibit the fund administrators from releasing information contained in the worksheets. Worksheet revenue data for individual carriers are not available to the public.

Program Requirements and Contribution Factors

Once the Universal Service Administrator collects and tabulates end user revenue data, the Commission reviews program requirements and determines the contribution factors. Carriers file first half revenue on September 1. This information is used to determine contributions for the first two quarters of the following year. Carriers then file whole year data on the following March 31. First half-year data are then subtracted from the whole-year data, and the result -- estimated second half revenue data -- is used to bill contributions to be made in the third and fourth quarters. On a quarterly basis, the Commission releases a public notice stating the proposed contribution factors for the upcoming quarter. If, after 14 days, the Commission takes no action regarding the proposed contribution factors, the factors become final.

Using revenue data that carriers filed on September 1, 1998, the Commission, on December 14, 1998, released approved contribution factors to be used to determine carrier contributions for

the first quarter of calendar 1999.² On March 4, 1999, the Commission issued contribution factors for the second quarter 1999. Each of the Public Notices released two factors, one for the schools and libraries and rural health care support mechanism, and one for the high cost and the low-income support mechanism.

The factors for the Schools and Libraries program are listed in table 1.2. The first quarter 1999 factor was 0.0058, and the second quarter factor was .0059. Carrier contributions to these support mechanisms for the first quarter of 1999 were determined by multiplying the factor times one quarter of their end user 1998 revenue. For instance, a carrier's first quarter contribution would be calculated by multiplying 0.0058 times one half of total end user revenue from intrastate, interstate and international telecommunications services billed in the first half of 1998.

The factors for the Low-Income support mechanism are also in Table 1.2. The first quarter 1999 factor was which was 0.0318, and the second quarter factor was .0305. Carrier contributions to these support mechanisms for the first quarter of 1999 were determined by multiplying the factor times one quarter of their end user 1998 revenue. For instance, a carrier's first quarter contribution would be calculated by multiplying .0318 times one half of total end user revenue from interstate and international telecommunications services billed in the first half of 1998.

As mentioned above, revenue information from the September 1 filings was also used as the basis for determining contributions for the second calendar quarter of 1998. On March 31, 1999, carriers filed revenue data for whole calendar year 1998. The Universal Service administrator determined second half 1998 revenues for each carrier by subtracting the carrier's first half revenues contained in its September 1, 1998, filing from the carrier's whole year revenues contained in its March 31, 1999 filing. Second half 1998 data were used as the basis for contributions billed in the third and fourth calendar quarters of 1999.

Using data from the March 31, 1999 filing, the Commission established contribution factors for both mechanisms for the third quarter 1999.³ The Schools and Libraries factor was .0099, and the High Cost and Low Income factor was .0294.

On July 30, 1999, a three-judge panel of the United States Court of Appeals for the Fifth Circuit issued an opinion that reversed the Commission's determination of Universal Service contributions. Contributions could no longer be based on the intrastate revenues of universal service contributors, and some international revenues were to be treated differently.

On September 9, 1999, the Commission motioned the Court for a stay of the mandate,

² Public Notice, First Quarter 1999 Universal Service Contribution Factors and Proposed Actions, CC Docket No: 96-45; FCC 98-318.

³ Public Notice, proposed Third Quarter 1999 Universal Service Contribution Factors. CC Docket No. 96-45.

which, in part, asked the Court to stay application of its mandate until the first quarter of 2000. This motion allowed the Commission to release fourth quarter contribution factors that were based the Commission's earlier interpretation of the rules.⁴ The court's ruling, released on September 28, mandated that the Commission not apply the existing fourth-quarter contribution factors on or after November 1, 1999. Thus, the September 28 ruling forced the Commission to issue new contribution factors for the months of November and December.

Because of the court decision, all of the Universal Service Mechanisms are now based on interstate end-user revenue. Interstate end-user revenue includes most international service end-user revenue. Excluded are revenue from calls that both originate and terminate in foreign points, and international revenue from carriers whose interstate end-user revenue represents 8% or less of their combined interstate and international end-user revenue. Accordingly, on October 8, 1999, the Commission adopted a single contribution factor for all programs, to be applied for November and December.⁵ The consolidated factor was .058995. Monthly contributions for November and December are calculated as this factor times 1/6 times the carrier's contribution base.

Table 1.2 also shows the contribution base and program requirement information used to calculate the fund factors for 1999 and the first half of 2000. If all carriers provided correct data on the filing dates, end user revenue totals would be the same for the first two and last two quarters of the year. The revenue totals changed over time because of late filings and corrections. The Commission reduces the amounts in the contribution bases by 1% to reflect the fact that some contributions will prove uncollectible.

Table 1.2 shows the actual amounts billed for contributions in each quarter. Actual billings for the second, third and fourth quarters of 1999 were unavailable from USAC. Actual billings reflect the actual amounts billed carriers during the quarter and include some prior quarter obligations where there have been late filings and corrected filings. Actual collections vary from the amounts shown in the table due to late payments, carrier bankruptcies, and interest charged on late payments.

Table 1.2 shows separate lines for refunds and periodic true-ups. Refunds are shown as negative billed contributions. The Commission modified the de minimis threshold in 1998. The decision was released before the Universal Service administrator sent bills for contributions, so only those carriers with projected contributions of \$10,000 or more, for the year, received a bill. Some companies, however, filed revised worksheets that changed their contribution base such that they did qualify for the de minimis exemption. These companies have been issued refunds. Other companies did not pass the de minimis test contained in the worksheet but will be billed less than

⁴ Thus, the Schools and Libraries contribution factor was multiplied by intrastate, interstate and international end-user revenue.

⁵ Proposed Fourth Quarter 1999 Universal Service Contribution Factor for November and December 1999. CC Docket No. 96-45; DA 99-2109.

\$10,000 in 1998, given the actual contribution factors that have been authorized. Refunds for these carriers are shown starting with the fourth quarter of 1998.

Finally, Table 1.2 shows outlays actually approved during the quarter, by program. These figures do not include actual administrative expense, just projected administrative expenses. Actual administration expense data are unavailable from USAC. Also, the data in the table show projected interest received, not actual interest received. Approved outlays are not the same as actual disbursements. For the Schools & Libraries program, disbursements can lag approvals.

Table 1.1: Telecommunications Revenue Reported by Type of Carrier
(Amounts shown in millions)

	1998		First Half 1999	
	Carrier's Carrier Revenue	End-user Revenue *	Carrier's Carrier Revenue	End-user Revenue *
ILECs				
Intrastate	\$11,661	\$67,956	\$5,814	\$34,204
interstate	<u>\$16,291</u>	<u>\$11,806</u>	<u>\$8,563</u>	<u>\$6,455</u>
Total	\$27,952	\$79,762	\$14,377	\$40,660
CLECs & other local competitors				
Intrastate	\$1,014	\$1,330	\$438	\$1,156
interstate	<u>\$519</u>	<u>\$1,121</u>	<u>\$450</u>	<u>\$726</u>
Total	\$1,533	\$2,451	\$888	\$1,882
Pay telephone				
Intrastate	\$87	\$799	\$85	\$323
interstate	<u>\$69</u>	<u>\$85</u>	<u>\$37</u>	<u>\$45</u>
Total	\$156	\$884	\$122	\$368
Wireless Telephony				
Intrastate	\$2,370	\$27,023	\$1,445	\$15,567
interstate	<u>\$277</u>	<u>\$3,327</u>	<u>\$223</u>	<u>\$2,163</u>
Total	\$2,647	\$30,350	\$1,667	\$17,730
Other Wireless				
Intrastate	\$500	\$2,697	\$195	\$1,285
interstate	<u>\$86</u>	<u>\$526</u>	<u>\$42</u>	<u>\$241</u>
Total	\$586	\$3,223	\$237	\$1,526
Toll Carrier				
Intrastate	\$3,155	\$22,733	\$1,467	\$11,219
interstate	<u>\$9,474</u>	<u>\$58,048</u>	<u>\$5,035</u>	<u>\$29,359</u>
Total	\$12,630	\$80,781	\$6,502	\$40,577
All Carriers				
Intrastate	\$18,788	\$122,538	\$9,444	\$63,753
interstate	<u>\$26,715</u>	<u>\$74,914</u>	<u>\$14,349</u>	<u>\$38,990</u>
Total	\$45,503	\$197,452	\$23,793	\$102,743

* Universal service contributions are based on interstate end-user revenue excluding revenue from international-to-international calls.

Table 1.2: Universal Service Program Requirements and Fund Factors

(Amounts shown in millions)

	1998				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	year
High Cost and Low Income Support Mechanisms					
	Based on first half 1997 Revenue		Based on second half 1997 Revenue		
Interstate and international end user revenues					
Reported contribution base revenues	\$35,001	\$35,303	\$34,719	\$34,228	
Adjustment for uncollectibles				1.0%	
Contribution base at the time the factor was calculated	\$35,001	\$35,303	\$34,719	\$33,885	
Projections of demand and administration expenses at the time the fund factors were adopted					
High Cost					
Program demand	\$434.0	\$431.1	\$414.1	\$422.5	
Administrative	\$1.1	\$0.9	\$0.8	\$1.9	
Interest income	(\$1.0)	(\$0.9)	(\$0.7)	(\$0.7)	
Periodic True-ups					
Total	\$434.1	\$431.1	\$414.2	\$423.7	
Low Income					
Program demand	\$125.0	\$122.3	\$125.3	\$116.4	
Administrative	\$0.6	\$0.4	\$0.4	\$0.3	
Interest income	(\$0.3)	(\$0.3)	(\$1.0)	(\$1.0)	
Periodic True-ups					
Total	\$125.3	\$122.4	\$124.7	\$115.8	
Total High Cost and Low Income	\$559.4	\$553.5	\$538.9	\$539.4	\$2,191.2
Contribution factor	0.0319	0.0314	0.0314	0.0318	
Contribution factor times 1/2 of contribution base	\$558.3	\$554.3	\$545.1	\$538.8	\$2,196.4
Actual contribution amounts billed to carriers during quarter					
High Cost	\$438.7	\$433.1	\$409.1	\$417.9	
Low Income	\$126.6	\$123.0	\$123.2	\$114.1	
Refunds and adjustments to reflect contributor bankruptcy	\$0.0	\$0.0	(\$0.9)	(\$1.2)	
Total	\$565.3	\$556.1	\$531.4	\$530.8	\$2,183.6
Actual requirements approved for payment					
High Cost	\$420.4	\$422.8	\$426.9	\$426.9	
Low Income	\$105.2	\$112.8	\$118.0	\$135.5	
Total	\$525.6	\$535.6	\$544.9	\$562.4	\$2,168.5

Table 1.2: Universal Service Program Requirements and Fund Factors (continued)
(Amounts shown in millions)

1998					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	year
Schools, Libraries & Rural Health Support Mechanisms					
Local, Interstate and International End User Revenue	Based on first half 1997 Revenue		Based on second half 1997 Revenue		
Reported contribution base revenues	\$89,827	\$92,186	\$94,066	\$94,482	
Adjustment for uncollectibles				1.0%	
Contribution base at the time the factor was calculated	\$89,827	\$92,186	\$94,066	\$93,537	
Projections of demand and administration expenses at the time the fund factors were adopted					
Schools & Libraries					
Program demand	\$299.3	\$322.4	\$690.0	\$320.1	
Administrative	\$2.7	\$4.4	\$4.4	\$4.9	
Interest income	(\$2.0)	(\$1.8)	\$0.0	\$0.0	
Periodic True-ups					
Total **	\$300.0	\$325.0	\$325.0	\$325.0	
Rural Health					
Program demand	\$23.0	\$23.2	\$24.3	\$24.3	
Administrative	\$2.2	\$1.9	\$1.2	\$1.5	
Interest income	(\$0.2)	(\$0.1)	(\$0.5)	(\$0.8)	
Periodic True-ups					
Total **	\$25.0	\$25.0	\$25.0	\$25.0	
Total Schools & Libraries, and Rural Health Care	\$325.0	\$350.0	\$350.0	\$350.0	\$1,375.0
Contribution factor	0.0072	0.0076	0.0075	0.0075	
Contribution factor times 1/2 of contribution base	\$323.4	\$360.3	\$352.8	\$360.8	\$1,377.2
Actual contribution amounts billed to carriers during quarter					
Schools & Libraries	\$306.8	\$325.7	\$326.6	\$323.6	
Rural Health	\$25.6	\$25.1	\$25.1	\$24.9	
Refunds and adjustments to reflect contributor bankruptcy	\$0.0	\$0.0	(\$0.3)	(\$0.8)	
Total	\$332.4	\$350.8	\$351.4	\$347.8	\$1,382.1
Actual requirements approved for payment					
Schools & Libraries	\$0.0	\$0.0	\$0.0	\$0.0	
Rural Health	\$0.0	\$0.0	\$0.0	\$0.0	
Total	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

See notes at end of table.

Table 1.2: Universal Service Program Requirements and Fund Factors (continued)
(Amounts shown in millions)

	1999				
	First Quarter	Second * Quarter	Third Quarter	Fourth Quarter	year
High Cost and Low Income Support Mechanisms					
	Based on first half 1998 Revenue		Based on second half 1998 Revenue		
Interstate and international end user revenues					
Reported contribution base revenues	\$37,062	\$36,979	\$38,366	\$38,204	
Adjustment for uncollectibles	1.0%	1.0%	1.0%	1.0%	
Contribution base at the time the factor was calculated	\$36,691	\$36,609	\$37,982	\$37,822	
Projections of demand and administration expenses at the time the fund factors were adopted					
High Cost					
Program demand	\$439.1	\$433.3	\$432.8	\$432.2	
Administrative	\$2.2	\$1.1	\$1.2	\$1.4	
Interest income	(\$0.9)	(\$0.6)	(\$0.5)	(\$0.6)	
Periodic True-ups		\$5.4	(\$1.2)	\$0.7	
Total	\$440.4	\$439.2	\$432.3	\$433.7	
Low Income					
Program demand	\$144.0	\$124.8	\$122.7	\$122.3	
Administrative	\$0.5	\$0.5	\$0.5	\$0.2	
Interest income	(\$0.7)	(\$0.8)	(\$0.8)	(\$0.8)	
Periodic True-ups		(\$5.0)	\$2.8	(\$9.4)	
Total	\$143.8	\$119.5	\$125.2	\$112.4	
Total High Cost and Low Income	\$584.2	\$558.7	\$557.5	\$546.1	\$2,246.5
Contribution factor	0.0318	0.0305	0.0294	0.02887	October only
Contribution factor times 1/2 of contribution base	\$583.4	\$558.3	\$558.4	\$182.0	
Actual contribution amounts billed to carriers during quarter					
High Cost	\$444.3	\$444.3	Data not yet available		
Low Income	\$145.1	\$120.9			
Refunds and adjustments to reflect contributor bankruptcy	(\$3.6)	(\$2.6)			
Total	\$585.7	\$562.5			
Actual requirements approved for payment		preliminary			
High Cost	\$431.0	\$296.5	Data not yet available		
Low Income	\$119.7	\$80.2			
Total	\$550.7	\$376.7			

Table 1.2: Universal Service Program Requirements and Fund Factors (continued)

(Amounts shown in millions)

1999					
	First Quarter	Second * Quarter	Third Quarter	Fourth Quarter	year
Schools, Libraries & Rural Health Support Mechanisms					
Local, Interstate and International End User Revenue	Based on first half 1998 Revenue		Based on second half 1998 Revenue		
Reported contribution base revenues	\$98,510	\$98,672	\$100,947	\$101,214	
Adjustment for uncollectibles	1.0%	1.0%	1.0%	1.0%	
Contribution base at the time the factor was calculated	\$97,525	\$97,685	\$99,938	\$100,202	
Projections of demand and administration expenses at the time the fund factors were adopted					
Schools & Libraries					
Program demand	\$319.9	\$318.2	\$555.7	\$562.5	
Administrative	\$10.2	\$6.8	\$6.8	\$7.1	
Interest income	(\$5.1)	(\$35.4)	(\$8.0)	(\$2.7)	
Periodic True-ups		(\$5.8)	(\$14.8)	(\$10.7)	
Total **	\$325.0	\$283.8	\$539.7	\$556.2	
Rural Health					
Program demand	\$0.0	\$0.0	\$0.0	\$3.3	
Administrative	\$0.0	\$0.0	\$0.0	\$0.8	
Interest income	\$0.0	(\$3.3)	(\$0.4)	(\$0.0)	
Periodic True-ups		(\$0.5)	(\$0.3)	\$0.1	
Total **	\$0.0	(\$3.8)	(\$0.7)	\$4.2	
Total Schools & Libraries, and Rural Health Care	\$325.0	\$280.0	\$539.0	\$560.3	\$1,704.3
October only					
Contribution factor	0.0058	0.0057	0.0099	0.0110	
Contribution factor times 1/2 of contribution base	\$282.8	\$278.4	\$494.7	\$183.7	
Actual contribution amounts billed to carriers during quarter					
Schools & Libraries	\$287.8	\$279.9	Data not yet available		
Rural Health	\$0.1	\$0.0			
Refunds and adjustments to reflect contributor bankruptcy	(\$1.2)	(\$2.1)			
Total	\$286.7	\$277.8			
Actual requirements approved for payment					
Schools & Libraries	\$114.5	\$368.0	Data not yet available		
Rural Health	\$0.0	\$0.0			
Total	\$114.5	\$368.0			
Contribution for Universal Service Support Mechanisms					
Interstate and international end user revenues					
Reported contribution base revenues				\$38,204	
Adjustment for uncollectibles				1.0%	
Contribution base at the time the factor was calculated				\$37,822	
November & December					
Combined Contribution Factor				0.058995	
Contribution factor times 1/2 of contribution base				\$743.8	
Actual contribution amounts billed to carriers during quarter					
Schools & Libraries, Rural Health, Low Income & High Cost					
Refunds and adjustments to reflect contributor bankruptcy					
Total					
Data not yet available					

Billings shown for second quarter represent projected billings. Actual requirements approved for payment shown for the second quarter represent actual amounts through June 11.

** In some cases the total represents a capped amount rather than the sum of the projected requirements.

2. Low Income Support

In 1984, the FCC, in conjunction with the states and local telephone companies, established a Lifeline program designed to promote universal service by helping low income individuals afford the monthly cost of telephone service.¹ In 1985, the FCC adopted a broader lifeline program, again designed to help low income individuals afford the monthly costs of service.² In 1987, the FCC adopted Link Up America, designed to help low income households pay the costs of connection and installation.³ The Telecommunications Act of 1996 (1996 Act)⁴ declined to proscribe or create in law additions or revisions which would impact "...the collection, distribution, or administration of the Lifeline Assistance Program provided for by the Commission..." affirming the Program as it existed before the 1996 Act.⁵

On May 7, 1997, the Commission voted to adopt the Joint Board's recommendations to make three broad categories of changes to the Lifeline and Link Up programs so that they better comport with the Commission's universal service principles and the 1996 Act's renewed concern for low-income consumers.⁶ The Commission agreed with the Joint Board's recommendation to

¹ See *MTS and WATS Market Structure, and Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board*, Recommended Decision, CC Docket Nos. 78-72 and 80-286, 49 Fed. Reg. 48325 (rel. Nov. 23, 1984) (recommending the adoption of federal lifeline assistance measures); *MTS and WATS Market Structure, and Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board*, Decision and Order, CC Docket Nos. 78-72 and 80-286, FCC 84-637, 50 Fed. Reg. 939 (rel. Dec. 28, 1984) (adopting the Joint Board's recommendation).

² *MTS and WATS Market Structure, and Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board*, Decision and Order, CC Docket Nos. 78-72 and 80-286, FCC 85-643, 51 Fed. Reg. 1371 (rel. Dec. 27, 1985).

³ *MTS and WATS Market Structure, and Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board*, Report and Order, CC Docket Nos. 78-72 and 80-286, 2 FCC Rcd 2953 (rel. May 19, 1987), *Memorandum Opinion and Order on Reconsideration*, 3 FCC Rcd 4543 (rel. July 12, 1988).

⁴ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996 Act), codified at 47 U.S.C. §§ 151 *et seq.* We refer to the Communications Act of 1934, as amended, as "the Communications Act" or "the Act" or "the 1934 Act."

⁵ See 47 U.S.C. § 254(j).

⁶ *Federal-State Joint Board on Universal Service*, Report and Order, CC Docket No. 96-45, FCC 97-157, 12 FCC Rcd 8776, 8952-94, paras. 326-409 (1997) (*1997 Universal Service*

expand Lifeline and assure it would be available in all states, territories, and commonwealths of the United States, to modify the state matching requirement, and increase the federal Lifeline support amount. The Commission found that these modifications comply with the 1996 Act's principles that rates should be "affordable" and access should be provided to "low-income consumers" in all regions of the nation. The Commission agreed to adopt the Joint Board's recommendation to make the contribution and distribution of low-income support competitively and technologically neutral by requiring equitable and nondiscriminatory contributions from all providers of interstate telecommunications services, and by allowing all eligible telecommunications carriers to receive support for offering Lifeline and Link Up service.⁷ The Commission adopted the Joint Board's recommendation to minimize local service interruption to low-income consumers, requiring carriers to maintain local service when Lifeline customers elect toll-limitation services. The Commission agreed with the Joint Board's recommendation to prohibit the disconnection of local service for non-payment of charges incurred for toll calls.

In the *1997 Universal Service Order*, the Commission revised the Lifeline program to assure that all Lifeline customers would receive \$3.50 in federal support without a state matching requirement, beginning January 1, 1998.⁸ In states that participate by reducing intrastate rates, through an equivalent reduction in the portion of intrastate local rates paid by the end-user, Lifeline customers receive an additional \$1.75 in federal support above the \$3.50 level (see Table 2.1). The federal Lifeline program provides funding from the interstate jurisdiction of up to \$7.00 per low-income subscriber per month consisting of a baseline amount of \$3.50, an additional \$1.75 per subscriber per month if the state commission authorizes a reduction in local rates equal to that amount, and up to an additional \$1.75 from the federal program if the state provides support for the low-income subscriber as well. The portion of the final \$1.75 that can be recovered is equal to one-half of a state funded amount up to \$3.50, if the state approves a reduction in local rates that is one and one-half times the level of matching state support.

The federal portion of the program is funded by the federal universal service support mechanisms which include contributions from all interstate telecommunications carriers and providers of interstate telecommunications, including payphone aggregators and private network operators that offer service to others for a fee on a non-common carrier basis. These carriers and service providers may pass on the expenses of these charges to their customers. The federal programs, in the past, included matching local rate reductions approved by state utility commissions, and took the form of a reduction in monthly charges or a reduction in service

Order), as corrected by *Federal-State Joint Board on Universal Service*, Errata, CC Docket No. 96-45, FCC 97-157 (rel. June 4, 1997), *appeal pending in Texas Office of Public Utility Counsel v. FCC and USA*, No. 97-60421 (5th Cir. 1997).

⁷ *1997 Universal Service Order*, 12 FCC Rcd 8776, 8968-73. See also 47 U.S.C. § 254(d), (e).

⁸ *1997 Universal Service Order*, 12 FCC Rcd 8776, 8962-68.

connection and installation charges. States are no longer required to provide matching reductions.

The federal Link Up program compensates eligible telecommunications service providers for revenue foregone in offering a Link Up program that provides service commencement charges for qualified low-income individuals that are discounted by one-half (up to \$30.00 in funding) or for interest foregone from a deferred schedule of payment of the charges assessed for commencing service (up to \$200.00) for which the low income consumer pays no interest.

The federal program compensates eligible telecommunications service providers for programs, which offer voluntary toll-limitation based on the carrier's incremental cost of providing toll-limitation services.⁹

In the *Fourth Order on Reconsideration*, the Commission established that eligible carriers, required to assess Presubscribed Interexchange Carrier Charges (PICCs) in their access charges, may also receive compensation for the PICCs associated with low-income subscribers that voluntarily opted for toll blocking service.¹⁰ The PICC is an access charge that long distance companies pay to local telephone companies as of January 1, 1998. Instead of paying a higher charge per minute to the local telephone companies as was required under the old rules, the long distance companies now pay to local telephone companies a flat-rated, per-telephone line charge plus a lower charge per minute. In 1998, the maximum PICC paid by the long distance companies for primary residential and single-line business service is \$0.53 per line per month. The actual PICC paid by the long distance companies may be less than this maximum amount, depending on each local telephone company's individual costs. The PICC will decrease over time to zero.

In the *1997 Universal Service Order*, the Commission defined Lifeline service to include, at a minimum: single-party service, voice grade access to the public switched telephone network, Dual Tone Multifrequency signaling or its functional digital equivalent, access to emergency services, access to operator services, access to interexchange service, access to directory assistance, and toll limitation. Lifeline and Link Up program benefits are available to persons verified by a state regulatory authority as eligible for a state public assistance program based on a "means" test

⁹ *1997 Universal Service Order*, 12 FCC Rcd 8776, 8981 at para. 386.

¹⁰ See *Federal-State Joint Board on Universal Service, Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charge*, Fourth Order on Reconsideration, CC Docket No. 96-45, Report and Order, CC Docket Nos. 96-45, 96-262, 94-1, 91-213, 95-72, FCC 97-420, 13 FCC Rcd 5318, 5394-95 (Dec. 30, 1997), as corrected by *Federal-State Joint Board on Universal Service*, Errata, CC Docket Nos. 96-45, 96-262, 94-1, 91-213, 95-72, DA 98-158 (rel. Jan. 29, 1998) (collectively, *Fourth Reconsideration Order*), at paras. 123-125. Competitive LECs designated eligible telecommunications carriers (ETCs) to serve customers in these carriers' serving areas are also eligible to receive this compensation for their low income customers that chose toll blocking. *Id.* at para. 125.

such as eligibility for food stamps or Medicaid. State regulatory authorities may chose to defer to alternative federal program eligibility standards. A second program requirement for subscriber participation is state verification of subscriber eligibility benefits. The states have considerable latitude in selecting means tests, shaping the benefits, and determining the geographic availability of the programs.

To authorize increased Lifeline support, states send a one-page letter certifying the reduction of intrastate rates to the Universal Service Administrative Company (USAC). State regulatory administrators determine appropriate levels of state support and authorize local exchange carriers, who are reimbursed through the USAC for program expenses. Federal program expenses are not funded by tax dollars. The FCC monitors subscriber participation and telephone usage to determine program benefits and costs.¹¹

The Lifeline program assures eligible low-income consumers affordable local rates and access to emergency dial-tone service. The Link-Up program, through affordable local connection charges, makes it possible for new subscribers to connect to the network and the community. The Commission encourages carriers to assist eligible low income subscribers, as part of its universal service mandate, to remain connected to the network, to retain service through local service payment plans, and to improve customer service. Carriers designated "eligible telecommunications carriers" by a State commission is required to "...advertise the availability of such services and the charges therefore using media of general distribution." Further, eligible telecommunications carriers must offer toll-limitation service free-of-charge pursuant to the revised Lifeline program to receive federal support. The Link Up America program, which supports affordable connection to the network, has added 9.4 million telephone subscribers to the telecommunications network since 1987. In 1999, an estimated 5.6 million subscribers paid reduced local rates under the low-income provisions of the Lifeline programs.¹²

Table 2.1 reports Lifeline monthly support by state or jurisdiction as of November 1999. The Table shows both federal and state support, and indicates the additional contribution from the

¹¹ 1997 *Universal Service Order*, 12 FCC Rcd 8776, 9218 at para. 869; *See Common Carrier Bureau Seeks Comment on Program to Monitor Impacts of Universal Service Support Mechanisms*, Public Notice, CC Docket No. 96-45, DA 98-580, IAD File No. 98-101 (rel. Apr. 24, 1998).

¹² Annual and cumulative historical data for 1988 through 1998 on the Lifeline and Link Up programs are available in the June 1999 Monitoring Report. Summary data by state or jurisdiction are in Table 2.5 for Lifeline subscribers, Table 2.6 for Lifeline payments, Table 2.8 for Link Up subscribers, and Table 2.9 for Link Up payments. Study area data are in Table 2.7 for Lifeline payments and Table 2.10 for Link Up payments. These tables can found on the FCC-State Link internet site, which can be reached at <http://www.fcc.gov/ccb/stats>.

federal program to reduce local rates where states have authorized statewide or carrier specific intrastate local rate reductions. Table 2.1 indicates both the federal and state combined "minimum" local rate reduction.

Table 2.2 reports Low Income support, by state or jurisdiction, for Lifeline and Link Up payments between January 1998 and August 1999. Projected program payments for 1999 as reported in *State-By-State Telephone and Universal Service* is included in the table. Total carrier payments data include local rate reductions for the PICCs, and the carrier's incremental cost of providing toll-limitation services (TLS) in each state or jurisdiction.

Table 2.3 reports total Lifeline and Link Up payments in 1998, for state or jurisdiction at the study area level. Local rate reductions for the PICCs, and the carrier's incremental cost of providing TLS are reported for 1998 by carrier USAC ID and Serving Area code identification. The serving area codes identify where more than one carrier provides Lifeline and Link Up assistance in the study area.

Table 2.3A reports Lifeline and Link Up payments for the eight-month period between January 1999 and August 1999, for state or jurisdiction at the study area level. Local rate reductions for the PICCs, and the carrier's incremental cost of providing TLS are reported for the eight-month period between January 1999 and August 1999 by carrier USAC ID and Serving Area code identification. The serving area codes identify where more than one carrier provides Lifeline and Link Up assistance in the study area.

Table 2.4 provides USAC quarterly support estimates for the Federal universal service programs in 1999. The low-income support components include: Lifeline Assistance; Link Up; Incremental Toll Limitation; PICC Reimbursement; Prior Period Adjustments and Administrative Expenses.

TABLE 2.1
LIFELINE MONTHLY SUPPORT BY STATE OR JURISDICTION
(As of December 1999)

STATE OR JURISDICTION	BASIC FEDERAL SUPPORT	ADDITIONAL STATE SUPPORT	FEDERAL MATCH	TOTAL FEDERAL SUPPORT	TOTAL FEDERAL AND STATE SUPPORT
ALABAMA	\$5.25	\$3.50	\$1.75	\$7.00	\$10.50
ALASKA	5.25	3.50	1.75	7.00	10.50
AMERICAN SAMOA	5.25	0.00	0.00	5.25	5.25
ARIZONA	5.25	2.28	1.14	6.39	8.67
ARKANSAS	5.25	0.00	0.00	5.25	5.25
CALIFORNIA	5.25	3.50	1.75	7.00	10.50
COLORADO	5.25	3.50	1.75	7.00	10.50
CONNECTICUT	5.25	1.17	0.58	5.83	7.00
DELAWARE	5.25	0.00	0.00	5.25	5.25
DISTRICT OF COLUMBIA	5.25	3.50	1.75	7.00	10.50
FLORIDA	5.25	3.50	1.75	7.00	10.50
GEORGIA	5.25	3.50	1.75	7.00	10.50
GUAM	5.25	3.50	1.75	7.00	5.25
HAWAII	5.25	0.00	0.00	5.25	5.25
IDAHO	5.25	3.50	1.75	7.00	10.50
ILLINOIS	5.25	1.50	0.75	6.00	7.50
INDIANA	5.25	0.00	0.00	5.25	5.25
IOWA	5.25	0.00	0.00	5.25	5.25
KANSAS	5.25	3.50	1.75	7.00	10.50
KENTUCKY	5.25	3.50	1.75	7.00	10.50
LOUISIANA	5.25	0.00	0.00	5.25	5.25
MAINE	5.25	3.50	1.75	7.00	10.50
MARYLAND	5.25	3.50	1.75	7.00	10.50
MASSACHUSETTS	5.25	6.00	1.75	7.00	13.00
MICHIGAN	5.25	2.00	1.00	6.25	8.25
MINNESOTA	5.25	0.00	0.00	5.25	5.25
MISSISSIPPI	5.25	3.50	1.75	7.00	10.50
MISSOURI	5.25	0.00	0.00	5.25	5.25
MONTANA	5.25	3.50	1.75	7.00	10.50
NEBRASKA	5.25	3.50	1.75	7.00	5.25
NEVADA	5.25	3.50	1.75	7.00	10.50
NEW HAMPSHIRE	5.25	0.00	0.00	5.25	5.25
NEW JERSEY	5.25	0.00	0.00	5.25	5.25
NEW MEXICO	5.25	3.50	1.75	7.00	10.50
NEW YORK	5.25	3.50	1.75	7.00	10.50
NORTH CAROLINA	5.25	3.50	1.75	7.00	10.50
NORTH DAKOTA	5.25	3.50	1.75	7.00	10.50
NORTHERN MARIANA ISLANDS	5.25	0.00	0.00	5.25	5.25
OHIO	5.25	0.00	0.00	5.25	5.25
OKLAHOMA	5.25	1.17	0.58	5.83	7.00
OREGON	5.25	3.50	1.75	7.00	10.50
PENNSYLVANIA	5.25	2.50	1.25	6.50	9.00
PUERTO RICO	5.25	0.00	0.00	5.25	5.25
RHODE ISLAND	5.25	3.50	1.75	7.00	10.50
SOUTH CAROLINA	5.25	3.50	1.75	7.00	10.50
SOUTH DAKOTA	5.25	0.00	0.00	5.25	5.25
TENNESSEE	5.25	3.50	1.75	7.00	10.50
TEXAS	5.25	3.50	1.75	7.00	10.50
UTAH	5.25	3.50	1.75	7.00	10.50
VERMONT	5.25	3.50	1.75	7.00	10.50
VIRGINIA	5.25	3.50	1.75	7.00	10.50
VIRGIN ISLANDS	5.25	7.05	1.75	7.00	14.05
WASHINGTON	5.25	3.50	1.75	7.00	10.50
WEST VIRGINIA	5.25	2.00	1.00	6.25	8.25
WISCONSIN	5.25	2.00	1.75	7.00	10.50
WYOMING	5.25	3.50	1.75	7.00	10.50